Before the

Federal Communications Commission

Washington, D.C. 20554

In the Matter of	)	
Connect America Fund	)	WC Docket No. 10-90
	)	
A National Broadband Plan for Our Future	)	GN Docket No. 09-51
	)	
Establishing Just and Reasonable Rates for Local	)	
Exchange Carriers	)	WC Docket No. 07-135
	)	
High-Cost Universal Service Support	)	WC Docket No. 05-337
	)	
Developing an Unified Intercarrier Compensation	)	
Regime	)	CC Docket No. 01-92
	)	
Federal-State Joint Board on Universal Service	)	CC Docket No. 96-45
	)	
Lifeline and Link-Up	)	WC Docket No. 03-109
	)	
Universal Service Reform – Mobility Fund	)	WT Docket No. 10-208

FURTHER NOTICE OF PROPOSED RULEMAKING

REPLY COMMENTS OF
ALEXICON TELECOMMUNICATIONS CONSULTING

Alexicon Telecommunications Consulting ("Alexicon") hereby submits its Reply Comments to the Federal Communications Commission ("FCC" or "Commission") in response to the Commission's Further Notice of Proposed Rulemaking ("FNPRM," or "Proposal").[1] In this Further Notice of Proposed Rulemaking, the Commission seeks comment on issues related to Universal Service Fund and Intercarrier Compensation Reform adopted concurrently with the FNPRM.[2]

EXECUTIVE SUMMARY

It is clear that the Commission's proposal to limit High Cost Loop Support (HCLS) recovery of certain capital and operating expenditures is fundamentally flawed. Numerous parties offered detailed critiques of the Quantile Regression Analysis (QRA) favored by the Commission, and very few, if any, included a defense of the proposed methodology. Alexicon has been working tirelessly with its clients and others in the industry in analyzing the impacts of the QRA and attempting to determine if there is any possibility of revising the QRA to make it workable. As a result, Alexicon will offer in these reply comments additional criticism of the QRA and reasons why the entire methodology should be abandoned.

The Commission's proposal to limit or reduce support in incumbent LEC areas where unsubsidized competition overlaps less that 100% of the applicable service area was also the subject of numerous comments. Alexicon will respond to the flawed nature of those comments that support the methodology to reduce support where there is 100% (or less) unsubsidized competition and will demonstrate why this also is a proposal that should be abandoned by the Commission.

[1] Adopted October 27, 2011 and Released November 18, 2011.

[2] Report and Order and Further Notice of Proposed Rulemaking In the Matter of Connect America Fund, WC Docket No. 10-90; A National Broadband Plan for Our Future, GN Docket No. 09-51; Establishing Just and Reasonable Rates for Local Exchange Carriers, WC Docket No. 07-135; High-Cost Universal Service Support, WC Docket No. 05-337; Developing an Unified Intercarrier Compensation Regime, CC Docket No. 01-92; Federal-State Joint Board on Universal Service, CC Docket No. 96-45; Lifeline and Link-Up, WC Docket No. 03-109; and Universal Service Reform – Mobility Fund, WT Docket No. 10-208, released November 18, 2011. (*ICC/USF Order*)

I. THE PROPOSED OPERATING AND CAPITAL EXPENSE LIMITATION METHODOLOGY IS FUNDAMENTALLY FLAWED

The proposed application of the QRA-based limitation on certain HCLS-recoverable operating and capital expenditures has the biggest impact, in most cases negative, of any action the Commission has taken in recent memory. The record established in the initial comment cycle is replete with evidence demonstrating that the QRA methodology is fundamentally flawed, including a detailed criticism by Professor Roger Koenker[3], whom the Commission referenced as one of the developers of quantile regression.[4]

Based on the comments received, Alexicon suggests the Commission take a step back, delay implementation of any type of statistical-based limit on capital and operating expenditures, and initiate a new investigation into whether, and if so, how a statistical-based limitation on heretofore prudently-incurred costs is reasonable and fits within the confines of universal service and general regulatory policy.

A. The Application of the Commission's QRA-Based Limitation Does Not Fit Within the Confines of Reasonable Universal Service and Regulatory Policy

The Commission's QRA proposal, while not yet fully developed, is to be applied in relation to investment and operations decisions that RLECs have already made. Alexicon likened this feature of the proposed caps to retroactive ratemaking in its initial comments.[5] Other parties took issue with the retroactive application of the QRA methodology, stating that "retroactive application of quantile regression analysis is unlawful"[6], "applying regression analysis to existing investment is…confiscatory"[7], and "the retroactive application of the proposed caps is grossly unfair and will jeopardize the very existence of many RoR LECs that have relied on the

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[3] National Exchange Carrier Association (NECA), National Telecommunications Cooperative Association (NTCA), Organization for the Promotion and Advancement of Small Telecommunications Companies (OPASTCO), and the Western Telecommunications Alliance (WTA) (*Rural Associations*) Comments, Appendix E

[4] FNPRM, Appendix H at 8

[5] Alexicon Comments at 12

[6] Blooston Rural Broadband Carriers Comments at 3

[7] GVNW Comments at 11

FCC's current USF regime to deploy broadband in high-cost areas."[8] At its most basic level, the proposed application of the QRA-based operating and capital expense caps denies companies a sufficient and predictable universal service support mechanism by changing the rules between the time the expense and investment decisions were made and the support was scheduled to be distributed. It is worth mentioning one more time – this is clearly not a reasonable result and will cause companies to enter an ill-advised race to the middle.

B. The Commission's QRA-Based Limitation Methodology Ignores the Reasonableness and Necessity of the Costs Incurred

As Alexicon stated in its initial comments, the Commission's QRA-based operating and capital expense limitation methodology appears to be a short-cut for a fact-based, fully litigated, review of RoR companies' costs and investment decisions.[9] One of the key underpinnings of RoR regulation is the determination, adjudicated by a regulatory or other authoritative body, that capital and operating expenses are prudently incurred, are necessary for the regulated operations of the RLEC, and, in the case of investment, are used and useful (as explained below). The Commission's QRA-based analysis skips several important steps and goes directly to a conclusion that certain levels of costs are inefficient and therefore ineligible for recovery from the HCLS. Missing is the review of the specific company, its service area, its operations, and gathering evidence as to why certain costs are reasonable, necessary, and prudent – or not. In essence, the Commission has mistaken a tool in its arsenal for the finished product. The QRA analysis should be nothing more than a way for the Commission to perhaps identify outliers, after which the Commission can determine if further investigation is necessary. However, even if the QRA analysis is to be used as a tool for the Commission to use, it needs to be substantially revised. Comments by several parties demonstrate this fact.[10]

The Commission's proposed model fails to consider whether the incurred costs to provide universal services are just, reasonable and necessary, and "used and useful," in accordance with

[8] TCA Comments at 5
[9] Alexicon Comments at 15
[10] See e.g., Comments of the Nebraska Rural Independent Companies (Part I) and Comments of the Rural Associations (Section IV, Appendix D, Appendix E)

the Commission's established standards. The *ICC/USF Order* sets forth no discussion, much less a rational and sustainable basis for the Commission to depart from its established rules and standards and implement the regression analysis. The Commission has an established standard and process pursuant to which it can ensure "that companies do not receive more support than necessary to serve their communities." The Commission's intent of the established "used and useful" standard is clear:

> The "used and useful" standard provides the foundation of Commission decisions evaluating whether particular investments can be included in a carrier's revenue requirement. Property is considered "used and useful" for regulatory ratemaking if it is "necessary to the efficient conduct of a utility's business, presently or within a reasonable future period." (Footnote omitted)[11]

Rural rate-of-return carriers have relied upon this standard in making prudent "used and useful" infrastructure investments to provide universal service in accordance with established standards and objectives.

The Commission has offered no basis to suggest any deficiency or flaw in the established "used and useful" standard, which offers the Commission necessary tools needed to ensure that the costs used for purposes of determining high-cost support amounts for rate-of-return carriers consist of prudent levels of capital and operating costs. The Commission has no basis in law or policy to depart from the established standard. Nor does the Commission have any basis to apply new standards retroactively in a manner that significantly reduces the revenues of rural carriers and threatens both their ability to preserve the excellent service now provided in their rural communities and their ability to continue as going concerns.

C. The Operating and Expense Caps Should Not Be Applied to Interstate Common Line Support

The Commission has concluded that the QRA-based Operating and Expense caps should not only apply to HCLS, but also to Interstate Common Line Support (ICLS). Several parties,

[11] *In the Matter of Sandwich Isles Communications, Inc. Petition for Declaratory Ruling*, WC Docket No. 09-133, Declaratory Ruling, September 29, 2010, at para. 12, citing *American Tel. and Tel. Co.*, Phase II Final Decision and Order, 64 FCC 2d 1, at 38, para. 111 (1977).

including Alexicon, addressed this in the initial round of comments.[12] However, given the lack of details on how the QRA-based caps would be applied to ICLS, comments in the initial round contained little detail.

The National Exchange Carrier Association (NECA) recently undertook the task of attempting to calculate the impact on its individual pool members of applying the QRA-based caps to ICLS. According to correspondence received from NECA, the estimated ICLS impact was calculated by applying the same percent decrease in HCLS cost per loop resulting from the QRA-based caps.[13] The results, while not unexpected, are nonetheless shocking – companies that will already be hardest hit by the caps on HCLS recovery will also be substantially impacted by the imposition of the caps on ICLS. Alexicon has reviewed the analyses for some companies that result in reduced support (combined HCLS and ICLS), as of July 1, 2012, that exceeds $55.00 per line, per month.[14] This means that for some companies, support will be lost related to investments already made and expenses already incurred, and considered prudent and reasonable under the rules at the time, of such a magnitude that when applied to local rates would greatly exceed any reasonable approximation of reasonably comparable local rates.[15]

D. The Implementation of the Proposed Capital and Operating Expense Limitations will have Catastrophic Impacts on Rural Customers

Alexicon has analyzed the long-term impacts of the Commission's decisions and proposals in the ICC/USF Order and FNPRM, and in areas served by some companies, the impact on customers[16] could be catastrophic. In addition to the impact on RLECs and their customers, it has also been established that RLECs "act as engines to drive economic benefits for residents and businesses

[12] See Alexicon Comments at 15; *See e.g.*, Rural Association Comments at 72

[13] This methodology was suggested by the Commission – See FNPRM at 1087

[14] Alexicon has only reviewed a limited number of these analyses. There are likely to be even greater monthly per-line reductions for other companies

[15] Given the caps on interstate access rates, the transition to bill and keep for interstate and intrastate terminating rates, RoR companies will have very few options for recovering these lost support revenues

[16] Alexicon notes that included in the universe of RLEC customers are mobile services providers, who are demanding more and more bandwidth for the rollout of 3G and 4G services. Providing sufficient facilities to the towers utilized by mobile providers to backhaul is often a major portion of RLEC capital expense budgets. Thus, the Commission's impact on capital investment will not only impact rural landline customers, but will also impact those hoping to use 3G and 4G services.

within and beyond their service areas."[17] As stated above, the biggest negative impact is the implementation of the QRA-based limitations on capital and operating expense recovery via the HCLS. Alexicon has also forecast the impact of the Commission's other decisions and proposals, including those related to intercarrier compensation reform. For many companies, the results are disturbing. Alexicon is presenting the forecast results for Mescalero Apache Telecom, Inc. as an example.

1. Mescalero Apache Telecom, Inc.

The Commission should be very familiar with Mescalero Apache Telecom, Inc. (MATI). MATI was formed to provide service to a historically underserved Mescalero Apache Tribe, whose land is located in south central New Mexico, is wholly-owned by the Tribe and is thus a Tribally-owned carrier.[18]

MATI's service area consists of a very fragile tribal economy that is increasingly reliant on the ability of its people to communicate, via voice and broadband services, with the rest of the United States and the world. MATI, under the auspices of universal service and other regulatory policies at the time, purchased lines from the incumbent carrier serving the Tribal area, and in 2001 began providing services as a full ETC designated by the Commission.[19] As MATI stated in its initial comments, the estimated impact of the Commission's decisions would have severe impacts.[20] Alexicon now presents a ten-year projection of the impacts of the *ICC/USF Order* and FNPRM decisions and proposals on MATI, and the results are nothing less than devastating – to MATI and, more importantly, the Mescalero Apache people.

Exhibit A consists of the ten-year financial projections, presented in balance sheet, income statement, and cash flow statement format, that include the impacts of the Commission's

[17] See NTCA, OPASTCO, WTA January 12, 2012 *Ex Parte* filing
[18] For more information on MATI, see MATI Comments filed on January 18, 2012 in this proceeding.
[19] Mescalero Apache Telecom, Inc., GTE Southwest Incorporated, and Valor Telecommunications of New Mexico, LLC, Joint Petition for Waiver of the Definition of "Study Area" Contained in Part 36, Appendix-Glossary of the Commission's Rules, Mescalero Apache Telecom, Inc., Related Waivers of Parts 36, 54, 61and 69 of the Commission's Rules, Order CC Docket 96-45, DA 01-129 (rel. January 18, 2001)
[20] MATI Comments at 5

ICC/USF Order.[21] As can be seen, the Commission's decisions will take a robust company, with positive net incomes and cash flows, and turn it cash flow negative by 2013. The damage caused by the Commission's decisions to MATI and the Mescalero Apache people cannot be overstated – MATI will have to make some hard and serious decisions, and soon, that will likely result in the curtailment of quality service to the Tribal area, and will certainly result in the delay or complete abandonment of its capital investment program. Perhaps more seriously, MATI's ability to service its loan from the Rural Utilities Service will also be in severe jeopardy. This example should provide the Commission with a clear indication of the conflict inherent in its ICC and USF decisions. On one hand, the Commission states the desire to ensure all Americans have access to voice and broadband services. On the other hand, the Commission, in the name of efficiency, is doing all it can to make sure rural LECs do not have access to the substantial resources necessary to make universal broadband service a reality.

II. THE COMMISSION MUST ABANDON THE PROPOSAL TO REDUCE OR ELIMINATE SUPPORT IN AREAS WITH UNSUBSIDIZED COMPETITION

The Commission requested comment on its proposals to eliminate support in areas where the incumbent's service area is 100% overlapped by unsubsidized competition, and in cases where the incumbent's service area is less than 100% overlapped. Alexicon offered comments on these proposals, and upon reviewing the comments for and against the unsubsidized competition proposal has not detected anything that revises that opinion.

Several parties offer support of the proposal to limit or reduce support received by RLECs in areas where the incumbent's service area is less than 100% overlapped by competition. In particular, the National Cable Telecommunications Association (NCTA) suggests the Commission should adopt "a simple and straightforward rule specifying that only costs associated with providing broadband in areas with no unsubsidized competitor will be deemed eligible for CAF support."[22] The NCTA goes on to state "…on a prospective basis, only the

[21] The financial impacts contained in Exhibit A do not include the impact of applying the QRA-based limitations on ICLS. Based on estimates provided by NECA, MATI is at risk of losing a substantial amount of ICLS, which will only serve to hasten MATI's financial deterioration
[22] NCTA Comments at 5

investment in facilities that are built in, or used for, the non-competitive 'donut' will be covered by the CAF mechanism and that investment in facilities built in, or used for, the competitive 'hole' will be excluded."[23]

NCTA's position does not address, at all, how reducing or eliminating support in areas with less than 100% unsubsidized competition can coexist with current carrier of last resort (COLR) and eligible telecommunications carrier (ETC) requirements. As Alexicon stated in its initial comments, "[t]he COLR and ETC mandates exist in order to ensure service is made available to all who request such service, regardless of where the customer lives or how much it costs to serve the customer."[24] NCTA erroneously claims that COLR and ETC concerns can be addressed by having affected RLECs prepare cost studies to allocate cost between competitive and non-competitive areas.[25] First, as Alexicon and others have pointed out to the Commission[26], allocating costs and adjusting support accordingly would in all likelihood *increase* total support provided to these areas. Second, NCTA's proposal to force all affected RLECs to perform cost studies would, in most cases, cause the impacted company to engage outside expertise in order to complete the study. Costs incurred of this sort are properly classified as Corporate Operations Expenses, which are currently being capped by the Commission. Thus, in effect NCTA is proposing a self-serving solution to a non-existent problem to be paid for by RLECs, some of whom will have no recourse for recovery.

NCTA also implies that state commissions have no business in determining the existence and extent of competitive overlap of RLEC service areas.[27] This is contrary to comments made by Alexicon[28], the *Rural Associations*[29], consumer advocates[30], and several state commissions[31]. This position is also contrary to common sense – in order to implement a rational and reasonable

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[23] *Id.*
[24] Alexicon Comments at 8
[25] NCTA Comments at 8
[26] See Alexicon Comments at 8; *Rural Associations* Comments at 87
[27] NCTA Comments at 8 (footnote 15)
[28] Alexicon Comments at 7
[29] *Rural Associations* Comments at 76
[30] National Association of State Utility Consumer Advocates, Maine Office of the Public Advocate, The New Jersey Division of Rate Counsel, and The Utility Reform Network Comments at 38
[31] *See e.g.,* Comments of Indiana Utility Regulatory Commission at 4; Comments of the Public Service Commission of Wisconsin at 10

method for determining competitive overlap, there must be a knowledgeable entity that is close to the areas being examined, and which is also cognizant of the parties involved. The only rational choice is the relevant state commission or tribal governmental entity.

In addition, the complete phase down of support in areas with 100% overlap will, with no predictability or sufficiency, impede the ability of a carrier to repay debt incurred for network deployment and operation, and also impede the carrier from planning network deployment and operations because of the absence of a sufficient and predictable support mechanism. Much as the Commission's proposed limitations on recovery of certain operating and capital expenses will prove devastating to many RLECs, the customers they serve, and the regional economies in which they operate, the removal of support for RLECs whose service area happens to be 100% overlapped by unsubsidized competition is equally problematic. One likely result is the exit of the incumbent RLEC from the market, leaving a non-COLR (and presumably non-ETC) carrier to continue providing essential voice and broadband services. Thus, the area formerly served by a COLR and ETC will now be at the mercy of a non-COLR carrier that may or may not serve all who request and require service. It is plainly not in the public interest, nor has Alexicon been able to verify the complete removal of COLR policies at the state level, to allow such a regime to be created just because one firm, for reasons unknown, decided it could serve an area without benefit of universal service support.

III. CONCLUSION

The Commission must take a close look at the Comments received, both here and in the initial round, and arrive at the conclusion that the Quantile Regression Analysis-based caps on HCLS and ICLS recoverable costs is an ill-advised attempt at imposing efficiency on these funds in the name of expediency. There simply cannot be a finding, and a resulting penalty in the form of reduced universal service support, that any operating or capital cost was not incurred in a just and reasonable manner based on the model results alone. The finding must be based on company-specific circumstances, facts, and investigation. Any other process runs the risk of completely undoing the work RLECs have accomplished with the aid of universal service support.

The Commission must also abandon its proposal to reduce or eliminate support in incumbent areas that are less than 100% overlapped by unsubsidized competition. Comments in support of this proposal failed to demonstrate how it can coexist with current carrier of last resort and eligible telecommunications carrier policies. Any process to reduce support in areas that are less than 100% overlapped by unsubsidized competition will not work, and should not be adopted.

It is clear that, whether intentional or unintentional, the Commission's decisions and proposal in the USF portion of the *ICC/USF Order* and FNPRM will cause harm to the RLEC industry as a whole, will result in likely catastrophic harm to individual companies and their customers, and will cause irreparable harm to the goals of universally available voice and broadband service. The Commission must seriously consider this harm and take immediate actions to cease the application of certain portions of its proposals, and instead seek a more measured and reasonable approach to ensuring communications services are and continue to be available to all Americans.

RESPECTFULLY SUBMITTED,

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Mescalero Apache Telecom, Inc.
Financial and Operating Forecast 2011 to 2020
Summary Forecast Financial Statements

BALANCE SHEET	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
ASSETS										
Current & Non-Plant Assets										
Cash	$ 731,503	$ 896,387	$ 692,479	$ 253,962	$ (254,722)	$ (551,044)	$ (883,245)	$ (1,328,400)	$ (1,920,895)	$ (1,628,891)
Other Current Assets	$ 1,023,128	$ 1,023,128	$ 1,023,128	$ 1,023,128	$ 1,023,128	$ 1,023,128	$ 1,023,128	$ 1,023,128	$ 1,023,128	$ 1,023,128
Non-current Assets	$ 228,538	$ 228,538	$ 228,538	$ 228,538	$ 228,538	$ 228,538	$ 228,538	$ 228,538	$ 228,538	$ 228,538
	$ 1,983,169	$ 2,148,053	$ 1,944,145	$ 1,505,628	$ 996,944	$ 700,622	$ 368,421	$ (76,734)	$ (669,229)	$ (377,225)
Other Plant Assets	$ 50,000	$ 50,000	$ 50,000	$ 50,000	$ 50,000	$ 50,000	$ 50,000	$ 50,000	$ 50,000	$ 50,000
Telephone Plant in Service										
General Support Facilities	$ 1,604,011	$ 1,614,011	$ 1,624,011	$ 1,634,011	$ 1,644,011	$ 1,654,011	$ 1,664,011	$ 1,674,011	$ 1,684,011	$ 1,694,011
Central Office Switching	$ 2,129,446	$ 2,129,446	$ 2,129,446	$ 2,129,446	$ 2,129,446	$ 2,179,446	$ 2,179,446	$ 2,179,446	$ 2,179,446	$ 2,179,446
Operator Systems	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Circuit Equipment	$ 3,225,455	$ 3,265,455	$ 3,305,455	$ 3,345,455	$ 3,385,455	$ 3,425,455	$ 3,465,455	$ 3,505,455	$ 3,545,455	$ 3,585,455
IOT Equipment	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Cable & Wire Facilities	$ 9,077,611	$ 9,637,611	$ 10,197,611	$ 10,757,611	$ 11,317,611	$ 11,477,611	$ 11,637,611	$ 11,797,611	$ 11,957,611	$ 12,117,611
Tangible & Intangible Plant Assets	$ 1,023,794	$ 1,023,794	$ 1,023,794	$ 1,023,794	$ 1,023,794	$ 1,023,794	$ 1,023,794	$ 1,023,794	$ 1,023,794	$ 1,023,794
	$ 17,060,317	$ 17,670,317	$ 18,280,317	$ 18,890,317	$ 19,500,317	$ 19,760,317	$ 19,970,317	$ 20,180,317	$ 20,390,317	$ 20,600,317
Accumulated Depreciation										
General Support Facilities	$ (1,041,202)	$ (1,142,640)	$ (1,228,314)	$ (1,282,283)	$ (1,336,125)	$ (1,380,236)	$ (1,418,897)	$ (1,457,809)	$ (1,496,970)	$ (1,536,382)
Central Office Switching	$ (1,842,448)	$ (2,019,831)	$ (2,129,446)	$ (2,129,446)	$ (2,129,446)	$ (2,179,446)	$ (2,179,446)	$ (2,179,446)	$ (2,179,446)	$ (2,179,446)
Operator Systems	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Circuit Equipment	$ (2,653,813)	$ (3,010,813)	$ (3,305,455)	$ (3,345,455)	$ (3,385,455)	$ (3,425,455)	$ (3,465,455)	$ (3,505,455)	$ (3,545,455)	$ (3,585,455)
IOT Equipment	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Cable & Wire Facilities	$ (4,987,172)	$ (5,431,413)	$ (5,909,814)	$ (6,422,375)	$ (6,969,096)	$ (7,537,777)	$ (8,098,547)	$ (8,628,323)	$ (9,167,860)	$ (9,711,212)
Tangible & Intangible Plant Assets	$ (108,093)	$ (138,807)	$ (169,520)	$ (200,234)	$ (230,948)	$ (261,662)	$ (292,376)	$ (323,090)	$ (353,803)	$ (384,517)
	$ (10,632,729)	$ (11,743,504)	$ (12,742,550)	$ (13,379,793)	$ (14,051,070)	$ (14,784,576)	$ (15,454,721)	$ (16,094,123)	$ (16,743,534)	$ (17,397,012)
Non-Regulated Assets	$ 112,637	$ 112,637	$ 112,637	$ 112,637	$ 112,637	$ 112,637	$ 112,637	$ 112,637	$ 112,637	$ 112,637
TOTAL ASSETS	**$ 8,573,394**	**$ 8,237,503**	**$ 7,644,549**	**$ 7,178,789**	**$ 6,608,828**	**$ 5,839,000**	**$ 5,046,654**	**$ 4,172,097**	**$ 3,140,191**	**$ 2,988,717**
LIABILITIES & EQUITY										
Current Liabilities	$ 392,482	$ 392,482	$ 392,482	$ 392,482	$ 392,482	$ 392,482	$ 392,482	$ 392,482	$ 392,482	$ 392,482
Net Deferred Operating Taxes	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Long Term Debt	$ 6,735,809	$ 6,038,052	$ 5,303,304	$ 4,529,598	$ 3,714,858	$ 2,856,899	$ 1,953,412	$ 1,001,970	$ -	$ -
Other Liabilities & Deferred Credits	$ 22,734	$ 22,734	$ 22,734	$ 22,734	$ 22,734	$ 22,734	$ 22,734	$ 22,734	$ 22,734	$ 22,734
	$ 7,151,025	$ 6,453,268	$ 5,718,520	$ 4,944,814	$ 4,130,074	$ 3,272,115	$ 2,368,628	$ 1,417,186	$ 415,216	$ 415,216
Capital Stock	$ 400,000	$ 400,000	$ 400,000	$ 400,000	$ 400,000	$ 400,000	$ 400,000	$ 400,000	$ 400,000	$ 400,000
Retained Earnings	$ 1,022,369	$ 1,384,235	$ 1,526,029	$ 1,833,975	$ 2,078,754	$ 2,166,885	$ 2,278,026	$ 2,354,911	$ 2,324,975	$ 2,173,501
	$ 1,422,369	$ 1,784,235	$ 1,926,029	$ 2,233,975	$ 2,478,754	$ 2,566,885	$ 2,678,026	$ 2,754,911	$ 2,724,975	$ 2,573,501
TOTAL LIABILITIES & EQUITY	**$ 8,573,394**	**$ 8,237,503**	**$ 7,644,549**	**$ 7,178,789**	**$ 6,608,828**	**$ 5,839,000**	**$ 5,046,654**	**$ 4,172,097**	**$ 3,140,191**	**$ 2,988,717**

Mescalero Apache Telecom, Inc.
Financial and Operating Forecast 2011 to 2020
Summary Forecast Financial Statements

INCOME STATEMENT	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
REVENUES										
End User Revenues										
Local Revenues	(549,834)	(543,405)	(537,244)	(531,723)	(526,472)	(521,489)	(516,776)	(512,332)	(508,158)	(504,253)
Interstate EUCL	(60,104)	(58,251)	(56,476)	(54,890)	(53,382)	(51,951)	(50,599)	(49,324)	(48,128)	(47,010)
State EUCL	-	-	-	-	-	-	-	-	-	-
Access Recovery Charge (ARC)	-	(2,337)	(6,714)	(10,740)	(12,396)	(11,637)	(10,467)	(9,144)	(8,028)	(6,948)
	(609,938)	(603,993)	(600,435)	(597,353)	(592,249)	(585,078)	(577,842)	(570,801)	(564,314)	(558,210)
Support Revenues										
Federal High Cost Loop	(1,933,860)	(1,554,632)	(1,216,207)	(1,191,128)	(1,181,901)	(1,109,453)	(1,125,267)	(1,104,078)	(1,035,186)	(964,665)
Federal Safety Net Additive	(18,524)	-	-	-	-	-	-	-	-	-
Federal Local Switching Support	(368,396)	(184,198)	-	-	-	-	-	-	-	-
Federal Interstate Common Line Support	(1,208,160)	(1,048,234)	(1,085,477)	(1,025,072)	(1,049,663)	(1,075,953)	(1,066,147)	(1,065,615)	(1,074,856)	(1,082,818)
State Support Program	(179,498)	(179,498)	(179,498)	(179,498)	(179,498)	(179,498)	(179,498)	(179,498)	(179,498)	(179,498)
Connect America Fund (CAF)	-	(252,450)	(491,476)	(475,808)	(470,373)	(463,196)	(448,571)	(427,734)	(407,767)	(388,361)
High Cost Support Limit	-	-	-	-	-	-	-	-	-	-
	(3,708,438)	(3,219,013)	(2,972,658)	(2,871,506)	(2,881,436)	(2,828,100)	(2,819,483)	(2,776,924)	(2,697,307)	(2,615,342)
Access Revenues										
Interstate Switched Access Revenue	(97,643)	(88,478)	(83,407)	(71,793)	(51,687)	(32,724)	(22,284)	(19,872)	(17,584)	(15,829)
Interstate Special Access Revenue	(491,841)	(564,199)	(543,998)	(481,364)	(486,717)	(489,679)	(491,421)	(492,140)	(496,061)	(499,622)
NECA Settlements	184,882	(37,771)	-	-	-	-	-	-	-	-
State Switched Access Revenue	(10,213)	(8,959)	(10,111)	(10,549)	(8,004)	(5,726)	(4,425)	(3,990)	(3,592)	(3,264)
State Special Access Revenue	(23,011)	(21,477)	(19,943)	(19,943)	(19,943)	(19,943)	(19,943)	(19,943)	(19,943)	(19,943)
Reciprocal Compensation	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)	-
	(437,826)	(720,884)	(657,459)	(583,650)	(566,351)	(548,072)	(538,073)	(535,945)	(537,180)	(538,658)
Miscellaneous Revenues	(574,724)	(582,768)	(590,972)	(599,341)	(607,877)	(616,584)	(625,465)	(634,523)	(643,763)	(653,187)
TOTAL REVENUES	**(5,330,927)**	**(5,126,658)**	**(4,821,523)**	**(4,651,850)**	**(4,647,913)**	**(4,577,833)**	**(4,560,862)**	**(4,518,194)**	**(4,442,564)**	**(4,365,397)**
EXPENSES										
Plant Specific Expenses	1,582,283	1,498,860	1,528,837	1,559,414	1,590,602	1,622,414	1,654,863	1,687,960	1,721,719	1,756,153
Plant Non-Specific Expenses	421,357	380,024	387,624	395,377	403,284	411,350	419,577	427,969	436,529	445,260
Depreciation & Amortization Expense	1,080,065	1,110,776	999,046	637,243	671,277	733,506	670,145	639,402	649,412	653,478
Customer Operations Expenses	340,741	333,110	339,772	346,567	353,499	360,569	367,780	375,136	382,638	390,290
Corporate Operations Expenses	1,026,094	971,009	990,429	1,010,238	1,030,443	1,051,052	1,072,073	1,093,514	1,115,384	1,137,692
Other Income & Expenses	506,137	471,013	434,022	395,064	354,030	310,811	265,283	217,328	166,818	133,998
TOTAL EXPENSES Before Income Taxes	**4,956,677**	**4,764,792**	**4,679,730**	**4,343,903**	**4,403,135**	**4,489,702**	**4,449,721**	**4,441,309**	**4,472,500**	**4,516,871**
NET (INCOME) / LOSS Before Taxes	**(374,250)**	**(361,866)**	**(141,794)**	**(307,947)**	**(244,778)**	**(88,131)**	**(111,142)**	**(76,885)**	**29,936**	**151,474**
Federal & State Income Taxes	-	-	-	-	-	-	-	-	-	-
Deferred Operating Income Taxes	-	-	-	-	-	-	-	-	-	-
NET (INCOME) / LOSS	**(374,250)**	**(361,866)**	**(141,794)**	**(307,947)**	**(244,778)**	**(88,131)**	**(111,142)**	**(76,885)**	**29,936**	**151,474**

Mescalero Apache Telecom, Inc.
Financial and Operating Forecast 2011 to 2020
Summary Forecast Financial Statements

CASH FLOWS	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
OPERATING CASH FLOWS										
Net Income	$ 374,250	$ 361,866	$ 141,794	$ 307,947	$ 244,778	$ 88,131	$ 111,142	$ 76,885	$ (29,936)	$ (151,474)
Depreciation & Amortization	$ 1,080,064	$ 1,110,776	$ 999,046	$ 637,243	$ 671,277	$ 733,506	$ 670,145	$ 639,402	$ 649,412	$ 653,478
Decrease (Increase) in Assets	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Increase (Decrease) in Liabilities	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
	$ 1,454,314	$ 1,472,642	$ 1,140,839	$ 945,190	$ 916,055	$ 821,637	$ 781,286	$ 716,287	$ 619,476	$ 502,004
INVESTING CASH FLOWS										
Sale (Purchase) of PP&E	$ (466,549)	$ (610,000)	$ (610,000)	$ (610,000)	$ (610,000)	$ (260,000)	$ (210,000)	$ (210,000)	$ (210,000)	$ (210,000)
Decrease (Increase) in Assets	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Increase (Decrease) in Liabilities	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
	$ (466,549)	$ (610,000)	$ (610,000)	$ (610,000)	$ (610,000)	$ (260,000)	$ (210,000)	$ (210,000)	$ (210,000)	$ (210,000)
FINANCING CASH FLOWS										
Long Term Debt	$ (799,795)	$ (697,757)	$ (734,748)	$ (773,706)	$ (814,740)	$ (857,959)	$ (903,487)	$ (951,442)	$ (1,001,970)	$ -
Other Liabilities & Deferred Credits	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Capital Stock	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Dividends Paid	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
	$ (799,795)	$ (697,757)	$ (734,748)	$ (773,706)	$ (814,740)	$ (857,959)	$ (903,487)	$ (951,442)	$ (1,001,970)	$ -
TOTAL INCREASE (DECREASE) IN CASH	**$ 187,970**	**$ 164,885**	**$ (203,909)**	**$ (438,516)**	**$ (508,685)**	**$ (296,322)**	**$ (332,201)**	**$ (445,155)**	**$ (592,494)**	**$ 292,004**
BEGINNING CASH BALANCE	$ 543,533	$ 731,503	$ 896,387	$ 692,479	$ 253,962	$ (254,722)	$ (551,044)	$ (883,245)	$ (1,328,400)	$ (1,920,895)
ENDING CASH BALANCE	$ 731,503	$ 896,387	$ 692,479	$ 253,962	$ (254,722)	$ (551,044)	$ (883,245)	$ (1,328,400)	$ (1,920,895)	$ (1,628,891)

General Assumptions

Capital Expenditures are projected to be $610,000 for years 2012 through 2015, $260,000 for 2016, and $210,000 for years 2017 through 2020

Expenses are projected based on the latest company information available for 2011, and budget information for 2012. Expenses are projected to grow at a 2% annual rate from 2013 through 2020

Beginning in 2012, Residential Access Lines are projected to decline approximately 4% per year, while Business Access Lines are projected to grow at a rate of approximately 1% per year

Jurisdictional allocations are developed based on the 2010 Jurisdictional Cost Study submitted to NECA